
REVENUES

Federal revenues are taxes and other collections from the public that result from the government's sovereign or governmental powers. This section provides an overview of President Clinton's revenue proposals for the period 1999-2004. Revenues in the Clinton budget are expected to grow by \$359.2 billion, or 19.9 percent, between 1999 and 2004. Over the five-year period 2000-2004, President Clinton's budget recommends net tax increases of \$45.8 billion.

Current services revenues are projected to be 20.6 percent of GDP in 2000. If President Clinton's revenue proposals are adopted, taxes will reach 20.7 percent of GDP in 2000, the highest level as a percentage of the economy since World War II (when revenues to finance the war reached 20.9 percent of GDP in 1944).

	(\$ Billions)						
	1998 Actuals	1999	2000	2001	2002	2003	2004
President's Budget:							
Revenues	1721.8	1806.3	1883.0	1933.3	2007.1	2075.0	2165.5
Current Services:							
Revenues	1721.8	1806.6	1871.8	1924.7	1998.0	2066.3	2157.3
Budget compared to Current Services:							
Revenues	---	-0.3	+11.2	+8.7	+9.1	+8.7	+8.2
	(Percent of GDP)						
President's Budget:							
Revenues	20.5	20.6	20.7	20.4	20.3	20.1	20.0
Current Services:							
Revenues	20.5	20.7	20.6	20.3	20.2	20.0	20.0

The President's Tax Cuts

- ▶ The President proposes targeted tax incentives totaling about \$32.6 billion over six years.

The President proposes tax incentives of \$6.8 billion over the period 2000-2004 to make child care more affordable by:

- ▶ Increasing the maximum **child and dependent care tax credit** rate from 30 percent to 50 percent, and to phase down the credit rate gradually for taxpayers with AGI between

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\$30,000 and \$59,000. The credit rate for taxpayers with AGI above \$59,000 would be 20 percent. In addition, the President would allow **parents who stay at home with children under age one** to take advantage of the child and dependent care credit by claiming assumed child care expenses of \$500. The credit would also be simplified by eliminating the household maintenance test.

- ▶ Proposing a **tax credit for employer-provided child care**, where the taxpayer could claim a credit equal to 25 percent of expenses incurred to build or acquire child care facilities. Taxpayers could claim a 10 percent credit for provision of child care referral services. Credits cannot exceed \$150,000 in a single year.

The President proposes tax incentives totaling \$5.8 billion over the period 2000-2004 to address health care needs:

- ▶ Nonrefundable **tax credit for long-term care expenses**, up to \$1,000 per year. The credit would phase out for singles with income over \$75,000 and for couples with income over \$110,000.
- ▶ A new \$1,000 **tax credit for the disabled**, to help compensate for the extra expenses the disabled encounter when they enter the workforce, phased out for singles with income over \$75,000, couples with income over \$110,000.
- ▶ Two-year **tax credits for small business health insurance expenses**. Businesses with less than 50 employees which didn't provide health insurance in 1997 or 1998 would receive two-year tax credits if they buy insurance through non-profit purchasing coalitions.

The President proposes several tax incentives totaling \$3.6 billion over the period 2000-2004 meant to address climate change:

- ▶ A new **tax credit of up to 20 percent of qualified investment in efficient building equipment technologies**, subject to a cap and expiring after 2003.
- ▶ A new **tax credit of up to \$2,000 for purchase of newly constructed energy efficient homes**.
- ▶ A new \$4,000 **tax credit for purchase of highly fuel-efficient vehicles**, defined as vehicles achieving three times the base fuel economy for its class. The full credit would be available in years 2003 through 2007. A \$3,000 credit is proposed for vehicles achieving two times base fuel economy in years 2003 through 2007. A \$2,000 credit is proposed for vehicles that are two-thirds more efficient than a comparable vehicle in its class in years 2002 through 2007, and a \$1,000 credit is proposed for vehicles that are one-third more

efficient in years 2002 through 2005.

- ▶ A new **8 percent tax credit for investment in industrial combined heat and power systems**, expiring after 2002.
- ▶ A new **15 percent tax credit for rooftop photovoltaic and solar water heating systems** (other than for swimming pools), up to \$2,000 for photovoltaic and \$1,000 for solar water heating systems, expiring in 2006 for photovoltaic systems and in 2004 for solar water heating systems.
- ▶ **Extend the current 1.5 cent per kilowatt hour tax credit for electricity produced from wind or “closed-loop” biomass.** The current credit expires July 1, 1999; the President proposes to extend it to July 1, 2004.

The President proposes \$1.0 billion of tax incentives over the period 2000-2004 meant to promote expanded retirement savings:

- ▶ Provide **small business a three-year tax credit** for the administrative and retirement-education expenses of small businesses setting up new qualified defined benefit or defined contribution plans, savings incentive match plans, simplified employee pension or payroll deduction IRAs
- ▶ Various proposals to allow rollovers from private plans to TSP, rollovers between qualified plans and tax-sheltered annuities, rollovers from IRAs to tax-sheltered annuities, rollovers of after-tax contributions.
- ▶ The President’s Universal Savings Accounts, discussed in the January 26, 1999 State of the Union speech, are not contained in the 2000 President’s Budget.

The President proposes \$5.6 billion of tax incentives over the period 2000-2004 to address education:

- ▶ **Incentives for public school construction**, including providing tax credits (in lieu of interest) to holders of up to \$22 billion of “qualified school modernization bonds.” In addition, tax credits would be available to holders of \$400 million of bonds for the construction and renovation of Bureau of Indian Affairs funded schools. The President also proposes to expand the amount of qualified zone academy bonds that can be issued from \$400 million to a total of \$2.4 billion.
- ▶ Make the **deduction for interest paid on student loans** more generous by eliminating the rule that says that in order to deduct interest on student loans, at least part of the

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interest paid during 1998 was paid during the first 60 months that payments were required to be made.

- ▶ Offer a tax credit of up to \$525 per employee to employers offering to **improve adult literacy**.
- ▶ **Extension and expansion of the exclusion for employer-provided educational assistance.** The President proposes to extend the exclusion through December 31, 2001. In addition, the President proposes to expand the exclusion to cover graduate courses beginning after June 30, 199 and before January 1, 2001.
- ▶ The President proposes to encourage sponsorship of qualified zone academies through small tax credits, and to provide tax relief for participants in certain Federal education programs (National Health Service Corps, Americorps, Armed Forces Health Professions.)

The President proposes \$3.3 billion in tax incentives to revitalize communities:

- ▶ A new tax credit for holders of **Better America Bonds**, to be issued to generate state and local government investment to preserve green space, create urban parks and clean up abandoned industrial sites.
- ▶ **Increase the low-income housing tax credit per capita cap** from \$1.25 to \$1.75.
- ▶ Create a **New Markets tax credit** - a 25 percent tax credit to corporations and investment groups that would support small technology companies, shopping centers and other business development in targeted urban and rural areas.
- ▶ Extend the wage credit for two new **empowerment zones**.

The President proposes to extend several expiring provisions and to modify certain trade and tariff provisions, with a total revenue loss of \$5.2 billion over the period 2000-2004:

- ▶ Extend the provision that allows individuals to claim **nonrefundable personal tax credits against the AMT** for two years.
- ▶ Extend the **work opportunity tax credit** and the **welfare-to-work tax credit** to June 30, 2000.
- ▶ Extend the **research and experimentation tax credit** through June 30, 2000.

- ▶ Make permanent the **expensing of brownfields remediation costs**.
- ▶ Extend the tax credit for first-time D. C. homebuyers through December 31, 2001.
- ▶ Extend the **Generalized System of Preferences (GSP)** through June 30, 2000.
- ▶ Modify the **Puerto Rico economic-activity tax credit** by making new businesses eligible for the credit, and extending the phase-out period through December 31, 2008.
- ▶ Levy tariff on textile and apparel produced in the Northern Mariana Islands without certain percentages of workers who are U.S. citizens.
- ▶ Expand authorized but currently unused tariff credits for wages paid in the production of watches in the Virgin Islands.

The Administration proposes other tax incentives totaling \$1.5 billion over the period 2000-2004:

- ▶ A **tax break for the steel industry**, which would permit steel companies to expand from two years to five years the period they can carry back losses.
- ▶ **Exempt up to \$2,000 of severance pay from income tax** if the severance results from a reduction in force by the employer, the employee is not reemployed within six months at 95 percent of previous pay, and total severance pay does not exceed \$75,000. The provision expires January 1, 2003.
- ▶ **Proposals to simplify tax laws** including optional SECA computations, rules to ensure business property is treated as ordinary property, clarification of rules relating to certain disclaimers, simplifying the foreign tax credit limitation, and providing interest treatment for certain payments from regulated investment companies to foreign persons.
- ▶ A proposal to revise **tax-exempt bond rules for electric power facilities**.

The President's Tax Increases

The President proposes a series of provisions that increase federal revenues by \$78.5 billion over the period 2000-2004. These proposals include \$34.5 billion in receipts from tobacco legislation, \$33.4 billion in new taxes from the elimination of unwarranted benefits, and \$10.6 billion from reinstating expired taxes and other proposals.

- ▶ The President's budget includes \$34.5 billion in **receipts from tobacco tax increases** over

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the 2000-2004 period. The President's budget says these receipts provide reimbursements for tobacco-related health care costs.

The President proposes \$33.4 billion in new taxes from eliminating "unwarranted" tax benefits and adopting other revenue measures including:

- ▶ \$7.2 billion over the 2000-2004 period from proposals to limit benefits of corporate tax shelter transactions, including modifying COLI rules, prevention of capital gains avoidance through basis shifting, and modifying treatment of an ESOP as an S corporation shareholder.
- ▶ \$26.2 billion over the 2000-2004 period from other proposals including:
 - Modify rules for capitalizing policy acquisition costs of **life insurance companies**;
 - Repeal lower-of-cost-or-market **inventory accounting**;
 - Repeal installment method for **accrual basis taxpayers**;
 - Modify **partnership distribution** rules;
 - Subject investment **income of trade associations to tax**;
 - Replace **sales-source rules with activity-based rules**;
 - Subject **signing bonuses** to employment taxes;
 - Reinstate **Oil Spill Liability** Trust Fund tax;
 - **Repeal percentage depletion** for non-fuel minerals mined on Federal and formerly Federal lands.
 - A **shift from future years forward to 2005** by modifying deposit requirements for FUTA.

The President proposes \$10.6 billion in new taxes from reinstating old taxes and through other proposals including:

- ▶ **Reinstating the Superfund corporate environmental surtax and the Superfund excise taxes.**

- ▶ **Raising taxes on domestic air passenger tickets and flight segments, international departures and arrivals, and domestic air cargo** by converting excise taxes deposited in the Airport and Airway Trust Fund to cost-based user fees for FAA services.
- ▶ A proposal to require **FDIC to assess fees** for examination of FDIC-insured state banks and bank holding companies.
- ▶ A proposal to assess mortgage transaction fees (\$15 for mortgage originations and refinancings) for flood hazard determination.
- ▶ A proposal to restore **premiums for the United Mine Workers** of America Combined Benefit Fund.
- ▶ A proposal to **create a solvency incentive for State Unemployment Trust Fund Accounts** by tying a portion of the projected distributions under the Reed Act to demonstrated improvements in solvency.

CLINTON TAX PROPOSALS

(\$ Billions)

	1999	2000	2001	2002	2003	2004	2000-04
Tax Relief Provisions:							
Dependent and child care credit	--	-0.3	-1.6	-1.4	-1.5	-1.5	-6.3
Credit for employer prov. child care	--	-(*)	-0.1	-0.1	-0.1	-0.1	-0.5
Tax credits for climate change:							
Energy efficient building equip.	--	-0.2	-0.4	-0.4	-0.4	-0.1	-1.5
Energy efficient homes	--	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4
High fuel economy vehicles	--	--	--	-(*)	-0.2	-0.7	-0.9
Tax credit for CHP systems	-(*)	-0.1	-0.1	-0.1	-0.1	-(*)	-0.3
Extend wind and biomass credit	--	-(*)	-(*)	-0.1	-0.1	-0.1	-0.3
Credit for rooftop solar systems	--	-(*)	-(*)	-(*)	-(*)	-(*)	-0.1
Promote expanded retirement savings	-(*)	-0.1	-0.2	-0.2	-0.2	-0.2	-0.9
Incentives for school construction	--	-0.1	-0.6	-0.9	-1.0	-1.0	-3.7
Emp. prov. educational assistance	-0.1	-0.3	-0.7	-0.2	--	--	-1.2
Other education initiatives	--	-(*)	-0.1	-0.1	-0.1	0.1	-0.6
Health care tax incentives:							
Long-term care credit	--	-0.1	-1.1	-1.1	-1.3	-1.4	-5.0
Workers with disabilities credit	--	-(*)	-0.2	-0.2	-0.2	-0.2	-0.7
Small business health plans	--	-(*)	-(*)	-(*)	-(*)	-(*)	-(*)
Incentives to revitalize communities:							
Low-income housing cap	--	-(*)	-0.2	-0.3	-0.5	-0.6	-1.7
Better America bonds	--	-(*)	-(*)	-0.1	-0.2	-0.3	-0.7

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New Markets tax credit	--	-(*)	-0.1	-0.2	-0.3	-0.4	-1.0
Extension of expiring provisions:							
Personal tax credits against AMT	-0.1	-0.7	-0.7	--	--	--	-1.4
Work opportunity tax credit	-(*)	-0.1	-0.2	-0.1	-(*)	-(*)	-0.4
Welfare to work tax credit	-(*)	-(*)	-(*)	-(*)	-(*)	-(*)	-0.1
R&E tax credit	-0.3	-0.9	-0.7	-0.3	-0.1	-0.1	-2.1
Brownfields	--	--	-0.1	-0.2	-0.2	-0.2	-0.6
GSP and other trade provisions	-0.1	-0.5	-0.2	-0.1	-0.1	-0.1	-1.0
Puerto Rico tax credit	--	-(*)	-(*)	-0.1	-0.1	-0.1	-0.4
Textiles/apparel tariff	--	--	0.2	0.2	0.2	0.2	0.7
First \$2,000 severance exempt from inc. tax	--	-(*)	-0.2	-0.2	-0.1	--	-0.6
Simplify tax laws	-0.1	-0.1	-0.2	-0.2	-0.1	-(*)	-0.6
Electricity restructuring	--	(*)	(*)	(*)	(*)	(*)	0.1
Steel industry tax breaks	-(*)	-0.2	-(*)	-(*)	-(*)	-(*)	-0.3
Subtotal, tax relief	-0.7	-4.1	-7.7	-6.6	-6.9	-7.3	-32.6
Revenue Raisers:							
Receipts from tobacco legislation	-0.1	8.0	7.1	6.6	6.4	6.4	34.5
Total of 13 tax increase proposals to limit benefits of corporate tax shelter transactions	0.1	1.1	1.3	1.5	1.6	1.7	7.2
Total of 57 tax increase proposals to eliminate unwarranted benefits and adopt other revenue measures	0.2	3.7	5.6	5.6	5.7	5.6	26.2
Total of 9 other tax increase proposals, such as							
Superfund taxes and fees	0.1	2.6	2.4	2.0	1.9	1.7	10.6
Subtotal, revenue raisers	0.4	15.4	16.4	15.7	15.6	15.4	78.5
Net Revenue Proposals	-0.3	11.2	8.7	9.1	8.7	8.2	45.8

*Less than \$50 million

